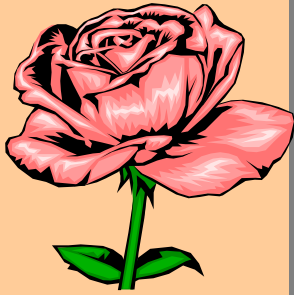


May 2004



North Dakota REV-E-NEWS

**From Pam Sharp, Director
Office of Management and Budget
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National economic indicators reflect a strengthening economy and support a positive outlook. Despite rising interest rates, the national economy is "increasingly buoyant," according to *Economy.com*. The job market is still showing growth and real Gross Domestic Product (GDP) is increasing at an annualized rate of around 5 percent. Despite increases in commodity prices and manufactured goods, consumers have not seen substantive increases in retail prices. Inflation is expected to accelerate, but still remain low in the near future.

State revenues continue ahead of projections, providing further evidence of the state's improving economy.

In North Dakota, economic data from a variety of sources provides evidence of the state's expanding economy.

The unemployment rate continues to decline in North Dakota. Seasonally adjusted unemployment dropped to a mere 3 percent for the

month of March. The state's unemployment rate averaged 4 percent during both 2002 and 2003. U.S. unemployment is dropping as well, but is still near 6 percent.

State revenues continue ahead of projections, providing further evidence of the state's improving economy. Although sales and individual income taxes show the largest increases compared to the legislative forecast, oil and gas production taxes are also showing significant increases, reflective of increases in both oil prices and production.

A recent report from the Bureau of Economic Analysis indicated that per capita personal income in North Dakota grew at a rate of 8.8 percent during 2003, faster than any other state in the nation. By comparison, per capita personal income grew at an average rate of only 2.3 percent nationally during 2003. Per capita personal income in North Dakota rose from 87 percent of the national average in 2002 to 92 percent in 2003.

Oil Activity

March oil production of 81,943 barrels was up over 2,300 barrels per day from February's production of 79,570 barrels. Oil prices continue to climb. Prices averaged \$29 in February and \$31 in March. Current prices are nearly \$35 per barrel.

The rig count has increased 3 from last month, to 18 rigs. There were 15 rigs operating one year ago. Drilling permits have also increased from 8 in February to 16 in March.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2003-05 BIENNIUM
April 2004

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	March 2003 Forecast	Actual	Variance	Percent	March 2003 Forecast	Actual	Variance	Percent
Sales Tax	24,949,000	28,499,947	3,550,947	14.2%	269,286,000	285,369,113	16,083,113	6.0%
Motor Vehicle Excise Tax	4,867,000	5,753,844	886,844	18.2%	51,884,000	52,575,830	691,830	1.3%
Individual Income Tax	49,993,000	61,972,429	11,979,429	24.0%	185,225,000	196,716,230	11,491,230	6.2%
Corporate Income Tax	11,585,000	6,901,619	(4,683,381)	-40.4%	33,550,000	30,097,669	(3,452,331)	-10.3%
Insurance Premium Tax	300,000	85,671	(214,329)	-71.4%	21,312,000	21,774,883	462,883	2.2%
Financial Institutions Tax	2,297,000	2,137,536	(159,464)	-6.9%	2,520,000	2,639,603	119,603	4.7%
Oil & Gas Production Tax	1,778,000	2,992,108	1,214,108	68.3%	18,587,000	22,056,734	3,469,734	18.7%
Gaming Tax	500,000	1,154,027	654,027	130.8%	9,500,000	9,610,449	110,449	1.2%
Lottery								
Interest Income	371,000	70,090	(300,910)	-81.1%	3,560,000	726,129	(2,833,871)	-79.6%
Oil Extraction Tax	1,206,000	1,436,197	230,197	19.1%	12,600,000	12,368,975	(231,025)	-1.8%
Cigarette & Tobacco Tax	1,396,000	1,608,952	212,952	15.3%	15,501,000	16,809,122	1,308,122	8.4%
Departmental Collections	1,000,000	1,386,559	386,559	38.7%	25,076,648	28,609,139	3,532,491	14.1%
Wholesale Liquor Tax	451,000	513,930	62,930	14.0%	4,744,000	4,900,679	156,679	3.3%
Coal Conversion Tax	2,094,000	2,131,165	37,165	1.8%	19,603,000	20,374,280	771,280	3.9%
Mineral Leasing Fees	350,000	455,999	105,999	30.3%	2,240,000	2,891,475	651,475	29.1%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer	174,525	174,525	-	0.0%	698,100	698,100	-	0.0%
Other Transfers	5,000,000	5,036,801	36,801	100.0%	18,410,000	18,547,686	137,686	0.7%
Total	108,311,525	122,311,399	13,999,874	12.9%	694,296,748	726,766,096	32,469,348	4.7%
Federal Fiscal Relief Payments						50,000,000	50,000,000	100.0%
Federal Fiscal Relief -Medicaid FMAP						6,456,581	6,456,581	100.0%
Total Revenues and Transfers	108,311,525	122,311,399	13,999,874	12.9%	694,296,748	783,222,677	88,925,929	12.8%

COMPARISON TO PREVIOUS BIENNIUM REVENUES
2003-05 BIENNIUM
April 2004

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2002	April 2004	Variance	Percent	2001-03	2003-05	Variance	Percent
Sales Tax	28,663,250	28,499,947	(163,303)	-0.6%	261,992,116	285,369,113	23,376,997	8.9%
Motor Vehicle Excise Tax	5,117,285	5,753,844	636,559	12.4%	50,924,226	52,575,830	1,651,603	3.2%
Individual Income Tax	43,457,272	61,972,429	18,515,157	42.6%	174,239,871	196,716,230	22,476,360	12.9%
Corporate Income Tax	10,657,986	6,901,619	(3,756,367)	-35.2%	31,767,684	30,097,669	(1,670,015)	-5.3%
Insurance Premium Tax	117,459	85,671	(31,788)	-27.1%	17,993,421	21,774,883	3,781,463	21.0%
Financial Institutions Tax	2,301,968	2,137,536	(164,432)	-7.1%	3,547,356	2,639,603	(907,753)	-25.6%
Oil & Gas Production Tax *	2,085,329	2,992,108	906,778	43.5%	14,068,053	22,056,734	7,988,681	56.8%
Gaming Tax	688,192	1,154,027	465,835	67.7%	10,296,677	9,610,449	(686,228)	-6.7%
Interest Income	179,813	70,090	(109,722)	-61.0%	3,108,647	726,129	(2,382,518)	-76.6%
Oil Extraction Tax *	1,080,075	1,436,197	356,122	33.0%	7,659,210	12,368,975	4,709,765	61.5%
Cigarette & Tobacco Tax	1,549,422	1,608,952	59,529	3.8%	16,838,443	16,809,122	(29,321)	-0.2%
Departmental Collections	1,077,137	1,386,559	309,422	28.7%	24,979,407	28,609,139	3,629,732	14.5%
Wholesale Liquor Tax	446,228	513,930	67,701	15.2%	4,532,555	4,900,678	368,123	8.1%
Coal Conversion Tax	2,035,297	2,131,165	95,868	4.7%	17,344,740	20,374,280	3,029,539	17.5%
Mineral Leasing Fees **	198,000	455,999	257,999	130.3%	1,932,746	2,891,475	958,730	49.6%
Bank of North Dakota-Transfer					15,000,000		(15,000,000)	-100.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer	170,424	174,525	4,101	2.4%	681,696	698,100	16,404	2.4%
Other Transfers		5,036,801	5,036,801	100.0%	68,337	18,547,686	18,479,349	100.0%
Total	99,825,139	122,311,399	22,486,260	22.5%	656,975,185	726,766,096	69,790,910	10.6%
Federal Fiscal Relief Payments						50,000,000	50,000,000	100.0%
Federal Fiscal Relief - Medicaid FMAP						6,456,581	6,456,581	100.0%
Total Revenues and Transfers	99,825,139	122,311,399	22,486,260	22.5%	656,975,185	783,222,677	126,247,491	19.2%

* These items did not hit SAMIS reports.

** Treasurer's Office problem with JV.

Revenue Variances

April 2004 revenue collections were nearly \$14 million higher than projected, resulting in biennium to date collections exceeding the legislative forecast by over \$32 million, excluding the impact of the \$56.5 million in federal fiscal relief payments received by the state and deposited in the general fund.

Sales tax collections exceeded monthly projections by \$3.6 million, or 14.2 percent. Following record taxable sales and purchases in the fourth quarter of 2003, collections in 2004 continue to outpace projections. Biennium to date collections exceed forecasted amounts by 6 percent.

Motor vehicle excise tax collections exceeded the forecast by nearly \$900,000, or 18.2 percent for the month.

Individual income tax collections exceeded the monthly forecast by nearly \$12 million. A portion of this increase reflects a timing issue relating to withholding deposits previously mailed on the last day of the month and recorded in the subsequent month. As more taxpayers take advantage of electronic filing, returns previously processed after the month end are now processed on the last day of the month.

However, factors other than timing have led to increased individual income tax collections. One factor is the transition of corporations to "pass-through" organizational structures, such as limited liability partnerships. Such entities offer business owners personal liability protection similar to that offered by the corporate structure, but offer tax benefits due to the fact that profits "pass-through" the business entity and are taxed at the individual tax rate for each partner. Despite timing issues and changes in business organizational

structure, a portion of the increase reflects increased personal income in the state. Federal tax law changes enacted after the March legislative forecast were anticipated to reduce state individual income tax collections by approximately \$4.25 million in FY04. So the fact that the state realized an increase of any amount reflects real growth in state personal income. (The information on federal tax relief has been provided to Budget Section and has been incorporated into the projected ending balance.)

Because of federal tax relief and corporate restructuring, corporate income tax collections fell short of biennium-to-date projections by \$3.4 million. Federal tax law changes enacted after the legislative forecast were anticipated to reduce state collections by approximately \$2.6 million for FY04. (Again, the information on federal tax relief has been provided to Budget Section and has been incorporated into the projected ending balance.)

Oil and gas production taxes exceeded the monthly forecast by \$1.2 million, or nearly 70 percent. Biennium to date collections are up \$3.5 million, or nearly 19 percent. This increase is primarily a result of increases in crude oil prices; however, production has begun to increase as well.

Comments or Questions???

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